

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Ingham County Road Commission	County Ingham
Audit Date December 31, 2005	Opinion Date March 30, 2006	Date Accountant Report Submitted to State: June 27, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

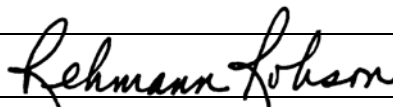
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | | | | |
|-------------------------------------|-----|-------------------------------------|----|---|
| <input type="checkbox"/> | Yes | <input checked="" type="checkbox"/> | No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> | Yes | <input checked="" type="checkbox"/> | No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> | Yes | <input type="checkbox"/> | No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> | Yes | <input checked="" type="checkbox"/> | No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> | Yes | <input checked="" type="checkbox"/> | No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> | Yes | <input checked="" type="checkbox"/> | No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> | Yes | <input checked="" type="checkbox"/> | No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> | Yes | <input checked="" type="checkbox"/> | No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> | Yes | <input checked="" type="checkbox"/> | No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) REHMANN ROBSON GERALD J. DESLOOVER, CPA			
Street Address 5800 GRATIOT, PO BOX 2025	City SAGINAW	State MI	Zip 48605
Accountant Signature 			



(a Component Unit of Ingham County)

MASON, MICHIGAN

FINANCIAL STATEMENTS

For The Year Ended December 31, 2005



REHMANN ROBSON

Certified Public Accountants

INGHAM COUNTY ROAD COMMISSION
(a Component Unit of Ingham County)

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REHMANN ROBSON

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

March 30, 2006

Members of the Board of County
Road Commissioners
County of Ingham, Michigan
Mason, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of the **INGHAM COUNTY ROAD COMMISSION**, a component unit of Ingham County, Michigan, as of and for the year ended December 31, 2005, which collectively comprise the Road Commission's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Ingham County Road Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the **Ingham County Road Commission** as of December 31, 2005, and the respective changes in financial position thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3-9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements which collectively comprise the Road Commission's basic financial statements. The schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the **Ingham County Road Commission**. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the *Ingham County Road Commission*, we offer the readers of the Road Commission's financial statements this narrative overview and analysis of the financial activities of the Road Commission for the fiscal year ended December 31, 2005.

Financial Highlights

Net assets may, over time, enable governmental agencies to determine their overall fiscal position:

- Assets exceeded liabilities by \$88,547,815 at the end of the fiscal year.
- Total net assets increased by \$5,285,995.
- Total bonded debt decreased by \$325,000 to a \$0.00 balance during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to provide a basis of understanding the Road Commission's basic financial statements. These statements comprise three components: (1) government-wide financial statements (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Statements

To simplify financial reporting and improve readability, the government-wide financial statements and the fund statements have been combined to report the statement of net assets and general fund balance sheet on a single page and the statement of activities and general fund revenues, expenditures and changes in fund balance on a single page.

The statement of net assets presents information on all of the Road Commission's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as an indicator of the Road Commission's overall fiscal position.

The statement of activities presents information showing how the Road Commission's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related* cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in past or future fiscal periods (for instance, depreciation expense associated with capital assets).

Both of the component unit financial statements distinguish the function of the Road Commission, which is principally supported by state shared revenues (operating grants). The governmental activities of the Road Commission include providing construction, repair, maintenance, and snow removal of roads within Ingham County.

The government-wide financial statements include only the Road Commission itself (known as the *Primary government*). The Road Commission has no legally separate component units for which the Road Commission is financial accountable. In this report, financial information for the Road Commission is reported separately from the financial information presented for Ingham County which reports the Road Commission as a component unit.

The government-wide financial statements can be found starting on page 10 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Road Commission, like other units of state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The activity of the Road Commission is accounted for in a governmental fund (General Fund).

Governmental funds. *Governmental funds* (General Fund) are used to account for essentially the same function reported in the government-wide financial statements. However, unlike the government-wide financial statements, general fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the general fund is narrower than that of the government-wide financial statement's it is useful to compare the information presented for the general fund with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the general fund balance sheet and the general fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the general fund and the government-wide statements.

The Road Commission maintains one governmental fund (the General Fund). Information is presented in the general fund balance sheet and in the general fund statement of revenues, expenditures, and changes in fund balances for the Road Commission. The general fund is a major fund for financial reporting purpose as defined by GASB Statement #34.

The Road Commission adopts an annual appropriated budget for its fund. A budgetary comparison statement has been provided herein to demonstrate compliance with that budget.

The Road Commission does not maintain proprietary nor fiduciary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the Road Commission's financial statements. The notes to the financial statements can be found on pages 15 through 25 of this report.

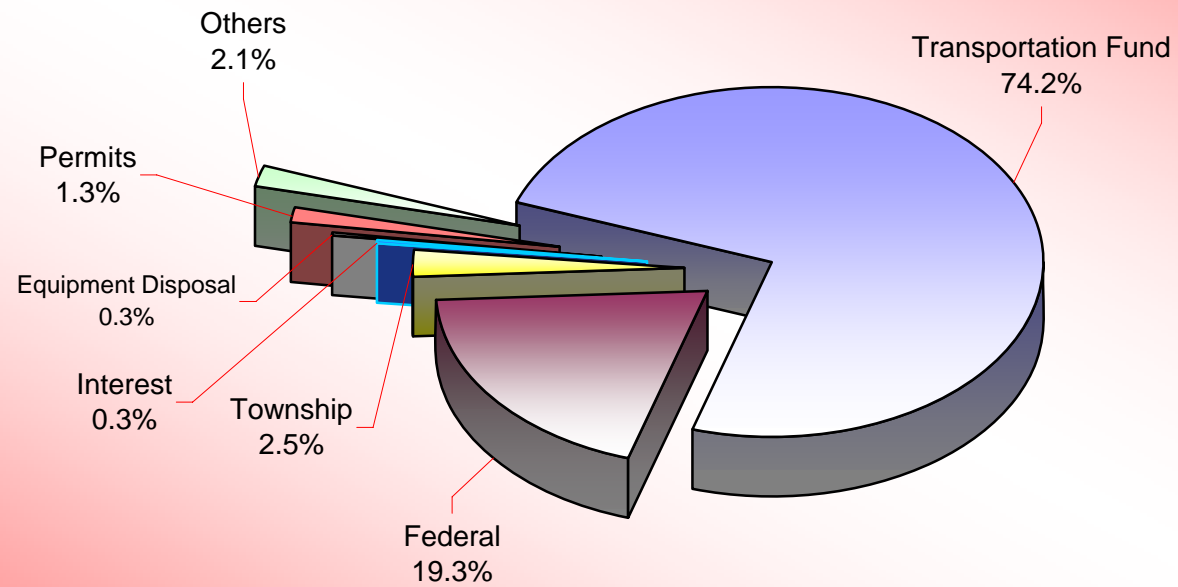
Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to this management discussion and analysis.

Because this is the fourth year of implementation of Governmental Accounting Standards Board Statement No. 34, which requires this new reporting model, the following tables a comparative analysis of government-wide data.

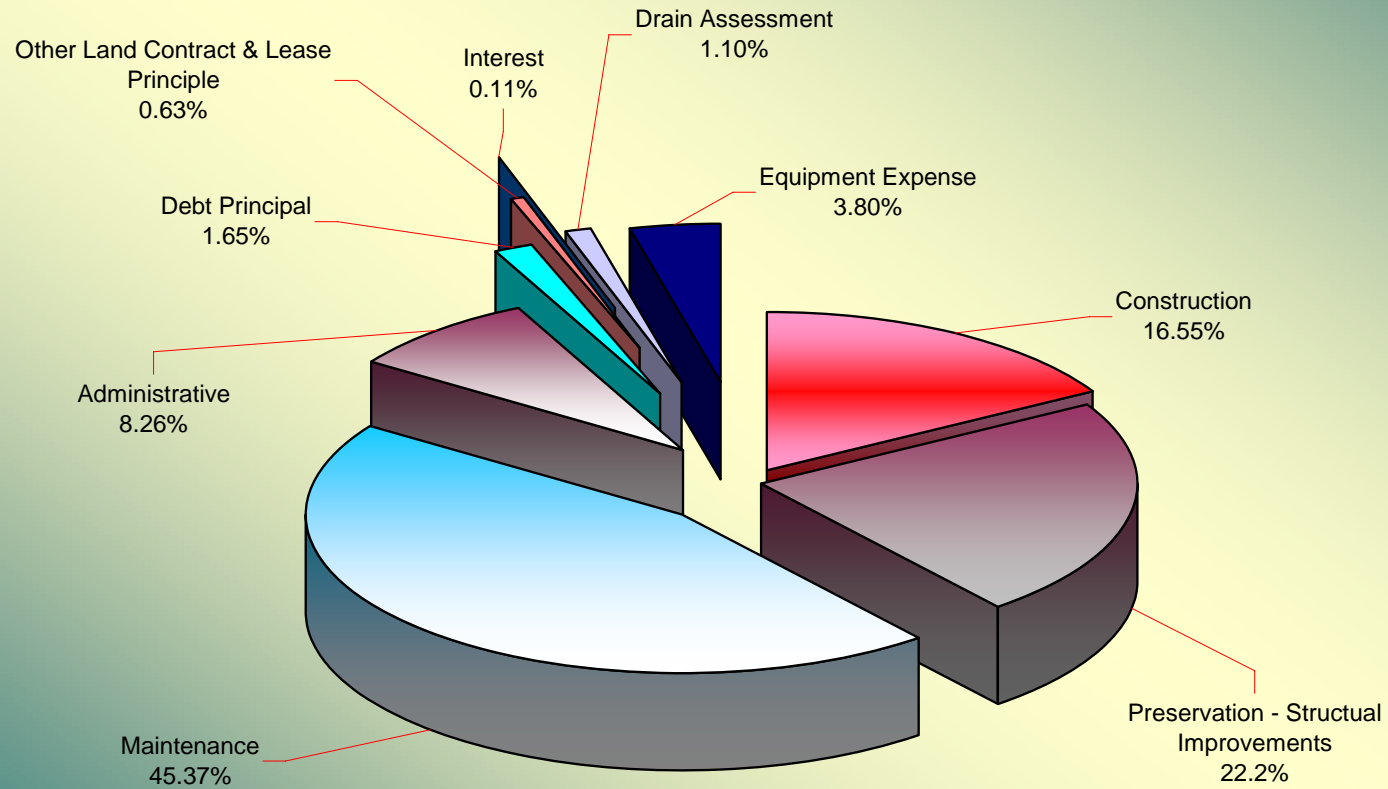
Condensed Statement of Net assets:	2004	2005
Current and other assets	\$ 5,039,979	\$ 4,000,936
Capital assets	<u>79,998,530</u>	<u>86,406,005</u>
Total assets	<u>85,038,509</u>	<u>90,406,941</u>
Long-term liabilities outstanding	1,260,951	925,631
Other liabilities	<u>563,601</u>	<u>933,495</u>
Total liabilities	<u>1,824,552</u>	<u>1,859,126</u>
Net assets:		
Invested in capital assets	79,542,590	86,257,669
Restricted	3,333,423	1,923,461
Unrestricted	<u>337,944</u>	<u>366,685</u>
Total net assets	<u>\$ 83,213,957</u>	<u>\$ 88,547,815</u>
Condensed Statement of Activities:		
Revenue		
Permits	\$ 268,893	\$ 238,691
Federal Sources	1,276,547	3,765,359
State Sources	13,930,256	13,157,391
Local Sources	3,532,710	3,834,900
Charges for Services	4,403	4,745
Interest and Rentals	27,636	50,033
Other	<u>39,566</u>	<u>198,648</u>
Total revenue	<u>19,080,011</u>	<u>21,249,767</u>
Expenses		
Public Works	15,084,991	15,946,496
Debt Service - Interest only	<u>74,099</u>	<u>14,169</u>
Total expenses	<u>15,159,090</u>	<u>15,960,665</u>
Other Financing Sources	<u>29,381</u>	<u>(3,107)</u>
Increase in Net Assets	<u>\$ 3,950,302</u>	<u>\$ 5,285,995</u>

INGHAM COUNTY ROAD COMMISSION

Sources of Revenue Received in 2005



INGHAM COUNTY ROAD COMMISSION Expenditure Breakdown for 2005



Capital Assets and Debt Administration	2004	2005
Ingham County Road Commission Capital Assets		
Land and improvements – not depreciated	<u>\$ 17,789,506</u>	<u>\$ 18,686,457</u>
Buildings	6,092,449	6,164,367
Road Equipment	8,692,038	8,991,172
Shop Equipment	233,608	243,529
Office Equipment	829,906	768,064
Engineering Equipment	123,243	148,448
Yard & Storage Equipment	231,607	231,607
Signals	51,877	108,172
Infrastructure – Roads	101,237,443	107,215,506
Infrastructure – Bridges	8,371,734	9,091,222
Infrastructure – Subdivisions	<u>2,408,317</u>	<u>5,734,714</u>
Sub-total	<u>128,272,219</u>	<u>138,696,801</u>
Accumulated Depreciation		
Buildings and improvements	2,407,305	2,565,696
Equipment	8,310,141	8,702,022
Signals	3,458	6,916
Infrastructure – Roads	53,592,517	57,712,858
Infrastructure – Bridges	1,701,911	1,869,345
Infrastructure – Subdivisions		120,416
Total Accumulated Depreciation	<u>66,015,332</u>	<u>70,977,253</u>
Total capital assets being depreciated – net	<u>62,322,857</u>	<u>67,719,548</u>
Governmental activities capital assets – net	<u>\$ 80,046,393</u>	<u>\$ 86,406,005</u>
Long-term Debt		
Bonds Payable	\$ 325,000	\$ 0
Lease Purchase Agreements	130,940	148,336
Settlements	56,667	28,334
Compensated absences	<u>748,344</u>	<u>756,825</u>
Total	<u>\$ 1,260,951</u>	<u>\$ 933,495</u>

Additional information on the Road Commission's long-term debt can be found in Note 4 on page 22 of this report.

Financial Analysis

As noted in the above tables, the Road Commission's financial position for the current fiscal year indicates positive balances for net assets. These have increased from the prior fiscal year.

The largest portion of the Road Commission's net assets reflects the investment in capital assets such as buildings, vehicles, equipment and infrastructure required to perform our business activities. These net assets are reduced by any related debt used to acquire the assets that is still outstanding. Because these assets are needed to conduct business activities and serve the citizens of Ingham County, they are not available for future spending. Thus, the resources needed to repay this debt must be secured from other sources.

Economic Factors and Road Fund Budgetary Highlights

The Road Commission amended its 2005 budget during the year to reflect an increase in preservation and structural improvement expenditures and local roads maintenance, plus a slight decrease in long-term debt expense. These adjustments also included the reduced Michigan Transportation Fund (MTF) revenues resulting from increases in the cost of gasoline and diesel fuel and the budget balancing legislation at the state level.

Expenditures exceeded Revenues by \$1,371,315 in 2005, causing an end-of year fund balance adjustment. Adjustments to the 2006 Budget are anticipated to restore the fund balance.

Requests for Information

This financial report is designed to provide a general overview of Road Commission's finances for all those with an interest in the component unit's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Administrative Services Director, Ingham County Road Commission, 301 Bush St., Mason, MI 48854.

BASIC FINANCIAL STATEMENTS

INGHAM COUNTY ROAD COMMISSION

Statement of Net Assets and General Fund Balance Sheet

December 31, 2005

	General Fund	Adjustments	Statement of Net Assets
Assets			
Cash and cash equivalents	\$ 734,866	\$ -	\$ 734,866
Accounts receivable			
Motor vehicle highway funds	2,087,604	-	2,087,604
Other	606,770	-	606,770
Inventories			
Road materials	382,300	-	382,300
Equipment material and parts	189,396	-	189,396
Capital assets			
Assets not being depreciated	-	18,686,457	18,686,457
Assets being depreciated (net)	-	67,719,548	67,719,548
Total assets	\$ 4,000,936	86,406,005	90,406,941
Liabilities			
Accounts payable	\$ 637,778	-	637,778
Accrued liabilities	98,418	-	98,418
Escrow deposits	189,435	-	189,435
Deferred revenue	146,928	(146,928)	-
Long-term liabilities			
Due within one year	-	446,185	446,185
Due after one year	-	487,310	487,310
Total liabilities	1,072,559	786,567	1,859,126
Fund Balance/Net Assets			
Fund balances:			
Reserved			
Primary road improvements	1,173,498	(1,173,498)	-
Local road improvements	729,963	(729,963)	-
MUSTFA	20,000	(20,000)	-
Unreserved			
Undesignated	1,004,916	(1,004,916)	-
Total fund balance	2,928,377	(2,928,377)	-
Total liabilities and fund balance	\$ 4,000,936		
Net Assets:			
Investment in capital assets, net of related debt		86,257,669	86,257,669
Restricted for primary and local roads		1,923,461	1,923,461
Unrestricted		366,685	366,685
Total net assets		\$ 88,547,815	\$ 88,547,815

The accompanying notes are an integral part of these financial statements.

INGHAM COUNTY ROAD COMMISSION

Reconciliation of General Fund Balance Sheet to Statement of Net Assets

December 31, 2005

Fund balances - General Fund	\$ 2,928,377
Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	86,406,005
Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance.	
Add - deferred long-term receivable	146,928
Long - term liabilities are not due and payable in the current period and are not reported in the funds:	
Deduct - land contract and installment lease purchase agreements payable	(148,336)
Certain liabilities, such as compensated absences and claims payable, are not due and payable in the current period and therefore are not reported in the funds:	
Deduct - judgments payable	(28,334)
Deduct - compensated absences payable	(756,825)
Net assets of governmental activities	<u><u>\$ 88,547,815</u></u>

The accompanying notes are an integral part of these financial statements.

INGHAM COUNTY ROAD COMMISSION

Statement of Activities and General Fund Revenues, Expenditures and Changes in Fund Balance

For the Year Ended December 31, 2005

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
Revenue			
Permits	\$ 238,691	\$ -	\$ 238,691
Intergovernmental:			
Federal sources	3,765,359	-	3,765,359
State sources	13,157,391	-	13,157,391
Local sources	545,233	3,289,667	3,834,900
Charges for services	4,745	-	4,745
Interest and rentals	50,033	-	50,033
Other	198,648	-	198,648
Total revenue	<u>17,960,100</u>	<u>3,289,667</u>	<u>21,249,767</u>
Expenditures/Expenses			
Current:			
Public works	19,002,944	(3,056,448)	15,946,496
Debt service:			
Principal	446,804	(446,804)	-
Interest	21,143	(6,974)	14,169
Total expenditures/expenses	<u>19,470,891</u>	<u>(3,510,226)</u>	<u>15,960,665</u>
Revenue over (under) expenditures	(1,510,791)	6,799,893	
Other financing sources (uses)			
Gain (loss) from sales of capital assets	276	(3,383)	(3,107)
Capital lease proceeds	139,200	(139,200)	-
Total other financing sources (uses)	<u>139,476</u>	<u>(142,583)</u>	<u>(3,107)</u>
Change in fund balance	(1,371,315)	(1,371,315)	
Change in net assets		8,028,625	5,285,995
Fund Balance/Net Assets, beginning of year, as restated	<u>4,299,692</u>	<u>78,962,128</u>	<u>83,261,820</u>
Fund Balance/Net Assets, end of year	<u><u>\$ 2,928,377</u></u>	<u><u>\$ 85,619,438</u></u>	<u><u>\$ 88,547,815</u></u>

The accompanying notes are an integral part of these financial statements.

INGHAM COUNTY ROAD COMMISSION

Reconciliation of the General Fund Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities

For the Year Ended December 31, 2005

Net change in fund balances - General Fund \$(1,371,315)

Amounts reported for *governmental activities* in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures. However, in the
statement of activities, the cost of those assets is allocated over their estimated
useful lives and reported as depreciation expense.

Add - capital outlay	632,028
Add - infrastructure additions	7,660,472
Add - subdivision infrastructure additions contributed by developers	3,326,400
Deduct - adjustments to record net loss on sale of capital assets	(3,383)
Deduct - depreciation expense	(5,255,905)

Revenues in the statement of activities that do not provide current financial
resources are not reported as revenues in the funds, but rather are deferred to the
following year.

Deduct - decrease in deferred long-term receivable	(36,733)
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Bond and capital lease proceeds provide current financial resources to
governmental funds in the period issued, but issuing bonds or obtaining financing
through capital leases increases long-term liabilities in the statement of net assets.
Repayment of bond principal or other long-term debt is an expenditure in the
governmental funds, but the repayment reduces long-term liabilities in the
statement of net assets.

Add - principal payments on bonds	325,000
Deduct - proceeds from capital lease	(139,200)
Add - principal payments on lease purchase installment agreements	121,804

Some expenses reported in the statement of activities do not require the use of
current financial resources and therefore are not reported as expenditures in the
funds.

Add - decrease in accrued interest payable on bonds	6,974
Add - decrease in judgments payable	28,334
Deduct - increase in the accrual for compensated absences	(8,481)

Change in net assets of governmental activities	<u><u>\$ 5,285,995</u></u>
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The accompanying notes are an integral part of these financial statements.

INGHAM COUNTY ROAD COMMISSION

Statement of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual General Fund

For the Year Ended December 31, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenue				
Permits	\$ 275,000	\$ 370,981	\$ 238,691	\$ (132,290)
Intergovernmental:				
Federal sources	2,356,000	2,967,191	3,765,359	798,168
State sources	13,200,000	13,151,510	13,157,391	5,881
Local sources	720,000	594,246	545,233	(49,013)
Charges for services	5,000	4,745	4,745	-
Interest and rentals	20,000	43,406	50,033	6,627
Other	-	63,000	198,648	135,648
Total revenue	16,576,000	17,195,079	17,960,100	765,021
Expenditures				
Current:				
Construction	-	3,214,677	3,266,552	(51,875)
Primary preservation	3,714,000	2,789,747	2,807,851	(18,104)
Local preservation	1,440,000	2,004,521	1,642,364	362,157
Primary maintenance	2,795,500	4,843,903	4,855,100	(11,197)
Local maintenance	2,391,000	3,141,128	4,101,369	(960,241)
Equipment - net	-	771,455	749,578	21,877
Administrative - net	1,270,800	1,648,660	1,629,500	19,160
Drain assessment	180,000	217,219	217,219	-
Distributive expense and contingency	4,660,500	-	-	-
Capital outlay - net	(424,500)	(304,018)	(268,523)	(35,495)
Debt service	467,000	467,947	467,947	-
Other	-	-	1,934	(1,934)
Total expenditures	16,494,300	18,795,239	19,470,891	(675,652)
Revenue over (under) expenditures	81,700	(1,600,160)	(1,510,791)	89,369
Other financing sources				
Proceeds from sales of capital assets	25,000	276	276	-
Capital lease proceeds	-	139,200	139,200	-
Total other financing sources	25,000	139,476	139,476	-
Change in fund balance	106,700	(1,460,684)	(1,371,315)	89,369
Fund Balance, beginning of year	4,299,692	4,299,692	4,299,692	-
Fund Balance, end of year	\$ 4,406,392	\$ 2,839,008	\$ 2,928,377	\$ 89,369

The accompanying notes are an integral part of these financial statements.

INGHAM COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Ingham County Road Commission (the “Road Commission”) conform to generally accepted accounting principles as applied to governmental units. The following is a summary of the significant policies.

Reporting Entity

The Ingham County Road Commission, referred to as the Road Commission, is a discrete component unit of the County of Ingham, Michigan. The Road Commission was established pursuant to the county road law (MCL 224.1), and is governed by a three member Board of County Road Commissioners appointed by the County Board of Commissioners.

The criteria established by the Governmental Accounting Standards Board Statement No. 14, “The Financial Reporting Entity”, for determining the reporting entity includes having financial accountability. Based on the above criteria, these financial statements present the Ingham County Road Commission, a discretely presented component unit of Ingham County, and include the Road Commission General Operating Fund.

The Road Commission General Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the County, which are earmarked by law for street and highway purposes. The Board of County Road Commissioners has responsibility for the administration of the Road Commission’s General Operating Fund.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the primary government. Governmental activities are supported by charges for services and intergovernmental revenues.

A combined financial statement is provided for the general fund and the statement of net assets and the general fund and the statement of activity. The general fund is considered to be a major fund for financial reporting purposes.

INGHAM COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

Measurement Focus Basis of Accounting and Financial Statement Presentation

The government-wide financial statements (statement of net assets and the statement of activities) are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund (general fund) financial statements (general fund balance sheet and general fund statement of revenues, expenditures and changes in fund balance) are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences not expected to be paid in the current year and claims and judgments, are recorded only when payment is due.

State and grant revenue, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental fund:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government.

Budgetary Data

The Road Commission's procedures for establishing budgetary data are as follows:

The Managing Director, acting as the chief administrative officer, submits a proposed budget for the upcoming year to the Road Commission. The budget is reviewed by the Road Commission and a public hearing is held. Prior to the beginning of the year, the budget is adopted and placed in the Board minutes by the Road Commission.

The budget for the General Operating Fund is adopted on a basis consistent with generally accepted accounting principles (GAAP). Budget amounts shown in the financial statements consist of those amounts contained in the formal budget approved and amended by the Board.

INGHAM COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

The Road Commission adopts a budget for the general operating fund by means of an appropriations act, on a functional basis. Periodic internal reporting is on a detail basis in accordance with the state-prescribed uniform chart of accounts consistent with the way the books are maintained. The Board has authorized the chief administrative officer to amend the Road Commission's budget when necessary to reflect the effects of the distribution of the distributive account and other amendments to the budget as needed. The budget is prepared on the modified accrued basis of accounting, which is the same basis as the financial statements. Variances at the legal level of control are as disclosed on the Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual, and include the following:

	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
Construction	\$ 3,214,677	\$ 3,266,552	\$ 51,875
Primary preservation	2,789,747	2,807,851	18,104
Primary maintenance	4,843,903	4,855,100	11,197
Local maintenance	3,141,128	4,101,369	960,241
Capital outlay - net	(304,018)	(268,523)	35,495
Other	-	1,934	1,934

Inventory

Inventory consists of various operating parts, supplies, and road material, and the cost is recognized using the consumption method (inventories recorded as expenditures when they are used). Inventories are stated at average cost determined on a first-in, first-out method, except for road materials, which are determined on the average cost method, and are not in excess of fair value.

Fund Balance Reservations

Certain assets of the Road Commission are reserved for primary and local road is construction and maintenance as required under state revenue sharing requirements. At December 31, \$1,173,498 reserved for primary roads, \$729,963 is reserved for local roads, and \$20,000 is reserved for MUSTFA.

Capital Assets

Capital assets, which include property, equipment and infrastructure assets (roads, bridges and similar items) are reported in the government-wide statements. Infrastructure assets are being capitalized and depreciated. Infrastructure has been recorded retrospectively beginning in 1980. Capital assets are defined by the Road Commission as assets with an estimated life in excess of two years, and an individual cost of more than \$1,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date donated.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

INGHAM COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

Capital assets are recorded as capital expenditures at the time of purchase in the fund financial statements and are subsequently capitalized on the government-wide statements through an adjustment to the governmental fund (general fund) column.

The Uniform Accounting Procedures prescribed for Michigan County Road Commissions provide for recording depreciation in the General Operating Fund as a charge to various expense accounts and a credit to the depreciation contra expense account. Accordingly, the annual depreciation expense does not affect the available operating fund balance of the General Operating Fund.

Depreciation is recorded over the estimated useful lives (ranging from five to forty years) of the assets, using the sum-of-years digits method for road equipment and straight-line method for all other capital assets and infrastructure as follows:

<u>Asset Category</u>	<u>Useful Life in Years</u>
Buildings and improvements	40
Equipment	5 to 10
Infrastructure	8 to 50

Deferred Compensation Plan

The Road Commission offers its employees a deferred compensation plan created in accordance with IRS section 457. The plan, available to all Road Commission employees, permits them to defer a portion of their current salary until future years. A trust has been established for the plan assets and the related assets and liability are not included in the Road Commission's financial statements.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. As permitted by GASB Statement No. 34, the Road Commission has elected to apply the provisions related to bond premiums, discounts, and issuance costs on a prospective basis.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

INGHAM COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

Compensated Absences

Under existing general Road Commission rules and regulations and its Labor Agreement, all regular full-time employees are eligible for paid leave in varying amounts based on number of years of service completed by each employee as of the preceding calendar year.

2. CASH DEPOSITS AND INVESTMENTS

Deposits

At December 31, 2005, the amount of the Road Commission's deposits were as follows:

Petty cash	\$ 500
Bank deposits (checking and savings accounts)	-
Held by Ingham County (bank deposits, including checking accounts and savings accounts)	534,366
Held by Ingham County (investments, including municipal investment funds and money markets)	<u>200,000</u>
	<u>\$ 734,866</u>

Statutes authorize the Road Commission to invest funds in the following:

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase
- Bankers acceptances of United States banks
- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service
- Mutual funds registered under the investment company act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation
- External investment pools as authorized by Public Act 20 as amended through 12/31/97

INGHAM COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

Investments

The Road Commission chooses to disclose its investments by specifically identifying each. As of year end, the Road Commission had the following investments.

<u>Deposit/Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
Cash Management Funds	n/a	\$ 150,000	Unrated
Investment Sweep – MIF	n/a	<u>50,000</u>	Unrated
		<u>\$ 200,000</u>	

Investment and deposit risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the listing of authorized investments above. The Road Commission's Investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The Road Commission's investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment are identified above for investments held at year end.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Road Commission's deposits may not be returned. State law does not require and the Road Commission does not have a policy for deposit custodial credit risk. As of December 31, 2005, \$78,000 of the Road Commission's bank balance of \$183,325 was exposed to custodial credit risk because it was uninsured and uncollateralized. Deposits in the amount of \$534,366 held by Ingham County may be partially covered by federal depository insurance. The amount of federal depository insurance is determined for the County as a whole, but cannot be separately identified for the Road Commission.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Road Commission will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the Road Commission does not have a policy for investment custodial credit risk. The above investments are not subject to custodial credit risk.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The Road Commission's investment policy does not have specific limits in excess of state law on concentration of credit risk.

INGHAM COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

3. CAPITAL ASSETS

	Balance January 1, 2005	Additions	Deductions	Balance December 31, 2005
Capital assets not being depreciated:				
Land	\$ 1,964,787	\$ -	\$ -	\$ 1,964,787
Land improvements	15,758,749	962,921	-	16,721,670
	<u>17,723,536</u>	<u>962,921</u>	<u>-</u>	<u>18,686,457</u>
Capital assets being depreciated:				
Buildings and improvements	6,158,419	5,948	-	6,164,367
Road equipment	8,692,038	495,410	196,276	8,991,172
Shop equipment	233,608	9,921	-	243,529
Office equipment	829,906	30,059	91,901	768,064
Engineers' equipment	123,243	34,395	9,190	148,448
Yard and storage	231,607	-	-	231,607
Signals	51,877	56,295	-	108,172
Infrastructure - Roads	101,237,443	5,978,063	-	107,215,506
Infrastructure - Bridges	8,371,734	719,488	-	9,091,222
Infrastructure - Subdivisions	2,408,314	3,326,400	-	5,734,714
Subtotal	<u>128,338,189</u>	<u>10,655,979</u>	<u>297,367</u>	<u>138,696,801</u>
Accumulated depreciation				
Buildings and improvements	2,407,305	158,391	-	2,565,696
Road equipment	7,226,130	585,811	194,036	7,617,905
Shop equipment	168,843	8,417	-	177,260
Office equipment	633,473	73,447	90,758	616,162
Engineers' equipment	97,793	11,845	9,190	100,448
Yard and storage	183,902	6,345	-	190,247
Signals	3,458	3,458	-	6,916
Infrastructure - Roads	53,592,517	4,120,341	-	57,712,858
Infrastructure - Bridges	1,701,911	167,434	-	1,869,345
Infrastructure - Subdivisions	-	120,416	-	120,416
Total accumulated depreciation	<u>66,015,332</u>	<u>5,255,905</u>	<u>293,984</u>	<u>70,977,253</u>
Total capital assets being depreciated - net	<u>62,322,857</u>	<u>5,400,074</u>	<u>3,383</u>	<u>67,719,548</u>
Governmental activities capital assets - net	<u><u>\$ 80,046,393</u></u>	<u><u>\$ 6,362,995</u></u>	<u><u>\$ 3,383</u></u>	<u><u>\$ 86,406,005</u></u>

INGHAM COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

4. LONG-TERM DEBT

	Balance January 1, 2005	Increases	(Decreases)	Balance December 31, 2005	Due Within One Year
Bonds payable	\$ 325,000	\$ -	\$ (325,000)	\$ -	\$ -
Land contract and installment lease purchase agreements	130,940	139,200	(121,804)	148,336	77,280
Total installment debt	455,940	139,200	(446,804)	148,336	77,280
Settlements	56,667	-	(28,333)	28,334	28,334
Compensated absences	748,344	8,481	-	756,825	340,571
Totals	<u>\$ 1,260,951</u>	<u>\$ 147,681</u>	<u>\$ (475,137)</u>	<u>\$ 933,495</u>	<u>\$ 446,185</u>

Installment lease purchase agreements consist of an obligation for a grader. Quarterly payments of \$16,393 include interest of 3.5% with the last payment due May 15, 2006. At December 31, 2005, the balance due is \$32,360.

Installment lease purchase agreements also consist of obligations for two wheel loaders. Quarterly payments of \$12,289 include interest of 4.25% with the last payment due May 10, 2008. At December 31, 2005, the balance due is \$115,976.

Annual debt service requirements of maturity for the lease agreements is as follows:

Year Ending December,	Governmental Activities	
	Installment Lease	
	Principal	Interest
2006	\$ 77,280	\$ 4,662
2007	46,867	2,284
2008	24,189	388
Total	<u>\$ 148,336</u>	<u>\$ 7,334</u>

INGHAM COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

5. OPERATING LEASES

The Road Commission leases a loader and a grader under noncancellable operating leases. Total costs for such leases were \$38,543 for the year ended December 31, 2005. The remaining payment on this lease of \$25,055 is due in 2006.

6. RETIREMENT PLAN

Plan Description

The Road Commission's defined benefit pension plan provides retirement and disability benefits and death benefits to plan members and beneficiaries. The Road Commission participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917, or by calling (800) 767-6377.

Funding Policy

The Road Commission is required to contribute at an actuarially determined rate. The current rate is 11.07% to 19.81% of annual covered payroll. Employees are currently not required to contribute to the Plan. The contribution requirements of the Road Commission are established by Act No. 427 of the Public Acts of 1984, as amended, and may be amended by the Retirement Board of MERS. The contribution requirements of plan members, if any, are established and may be amended by the Road Commission.

Annual Pension Cost

For the year ended December 31, 2005, the Road Commission's annual pension cost of \$748,758 for MERS was equal to the Road Commission's required and actual contributions. The required contribution was determined as part of the December 31, 2003 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 4.2% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the entry age normal cost method basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The Road Commission's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2004, the date of the latest actuarial valuation, was 30 years.

INGHAM COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/03	\$ 651,929	100%	\$ -
12/31/04	751,334	100	-
12/31/05	748,758	100	-

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age</u>	<u>Unfunded Actuarial Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
12/31/02	\$18,754,136	\$22,849,281	\$4,095,145	82%	\$4,501,782	91%
12/31/03	19,792,516	24,157,395	4,364,879	82	4,659,401	94
12/31/04	20,630,903	26,235,825	5,604,922	79	4,957,245	113

7. RISK MANAGEMENT

The Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool "Pool" established pursuant to the laws of the State of Michigan which authorizes contracts between municipal corporations (inter local agreements) to form group self-insurance pools, and to prescribe conditions to the performance of these contracts.

The Michigan County Road Commission Self-Insurance Pool was established for the purpose of making a self-insurance pooling program available for Michigan County Road Commissions, which includes, but is not limited to, general liability coverages, auto liability coverages, property insurance coverages, stop loss insurance protection, claims administration, and risk management and loss control services pursuant to Michigan Public Act 138 of 1982.

The Ingham County Road Commission pays an annual premium to the Pool for general liability, excess liability, errors and omissions, auto liability, auto comprehensive, auto collision, equipment and building and contents.

The agreement for the formation of the Pool provides that the Pool will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board.

INGHAM COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

The Road Commission is also self-insured for workers' compensation as a member of the County Road Association Self Insurance Fund. The estimated amount of the IBNR, or "Incurred But Not Reported" claims associated with the self-insurance arrangements is not considered to be material at December 31, 2005.

The Road Commission continues to carry commercial insurance for all other risks of loss, including life insurance, health program, data processing, commercial crime and boiler and machinery. Settled claims have not exceeded insurance coverage for the last three years.

8. CONTINGENCIES

Under the terms of various Federal and State grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such grants could lead to reimbursement to the grantor agencies. However, Road Commission management does not believe such disallowances, if any, will be material to the financial position of the Road Commission.

The Road Commission has been named as a defendant in various litigation involving lawsuits pending and notices of intent to file suit.

Management and legal counsel of the Road Commission expect no material losses in excess of insurances should an unfavorable outcome prevail. No provision for any loss has been made in the accompanying financial statements.

9. SINGLE AUDIT

Governmental and certain other entities which expend \$500,000 or more of direct federal dollars are subject to a single audit in accordance with the OMB Circular A-133. The Road Commission expended \$3,765,359 of federal state dollars which were passed through and administered by the Michigan Department of Transportation. The passed through monies will be included in the State of Michigan's single audit.

10. RESTATEMENTS

Net assets as of January 1, 2005, was restated as follows:

	<u>Governmental Activities</u>
Net assets, January 1, 2005, as previously reported	\$ 83,213,957
Increase to properly state buildings and improvements accumulated depreciation	<u>47,863</u>
Net assets, January 1, 2005, as restated	<u><u>\$ 83,261,820</u></u>

* * * * *

GENERAL FUND SCHEDULES

INGHAM COUNTY ROAD COMMISSION

Detail Schedule of Revenue and Other Financing Sources - Budget and Actual General Fund

For the Year Ended December 31, 2005
(With Actual Amounts for the Year Ended December 31, 2004)

	2005			2004
	Final Budget	Actual	Variance	Actual
Revenue				
Permits	\$ 370,981	\$ 238,691	\$ (132,290)	\$ 268,893
Federal sources:				
Federal aid - other	1,760,600	1,993,600	233,000	859,674
D Funds	923,137	947,031	23,894	206,388
Economic Development Funds	283,454	273,453	(10,001)	210,485
Bridge	-	551,275	551,275	-
Total federal sources	2,967,191	3,765,359	798,168	1,276,547
State sources:				
Motor Vehicle Highway Funds - Act 51:				
Engineering	10,000	10,000	-	10,000
Primary roads	8,789,402	8,795,487	6,085	9,265,233
Local roads	2,514,476	2,515,853	1,377	2,624,744
Primary urban roads	1,372,790	1,371,044	(1,746)	1,499,195
Local urban roads	464,842	465,007	165	531,084
State critical bridge	-	-	-	-
Total state sources	13,151,510	13,157,391	5,881	13,930,256
Local sources:				
Township contributions	535,204	452,746	(82,458)	817,285
Other contributions	59,042	92,487	33,445	123,451
Total local sources	594,246	545,233	(49,013)	940,736
Charges for services:				
Salvage sales	4,745	4,745	-	4,403
Interest	43,406	50,033	6,627	27,636
Other revenue	63,000	198,648	135,648	39,566
Total revenue	17,195,079	17,960,100	765,021	16,488,037
Other financing sources				
Proceeds from sales of equipment	276	276	-	29,696
Capital lease proceeds	139,200	139,200	-	-
Total other financing sources	139,476	139,476	-	29,696
Total revenue and other financing sources	\$ 17,334,555	\$ 18,099,576	\$ 765,021	\$ 16,517,733

INGHAM COUNTY ROAD COMMISSION

Detail Schedule of Expenditures - Budget and Actual General Fund

For the Year Ended December 31, 2005
(With Actual Amounts for the Year Ended December 31, 2004)

	2005			2004
	Final Budget	Actual	Variance	Actual
Construction:				
Primary roads and structures	\$ 3,214,677	\$ 3,266,552	\$ (51,875)	\$ 1,309,562
Preservation - structural improvements				
Primary roads and structures	2,789,747	2,807,851	(18,104)	2,589,007
Local roads and structures	2,004,521	1,642,364	362,157	1,161,856
Total heavy maintenance	4,794,268	4,450,215	344,053	3,750,863
Maintenance:				
Primary roads and structures, winter and traffic control	4,843,903	4,855,100	(11,197)	4,146,249
Local roads and structures, winter and traffic control	3,141,128	4,101,369	(960,241)	3,960,390
Total maintenance	7,985,031	8,956,469	(971,438)	8,106,639
Equipment:				
Direct	1,357,015	1,350,891	6,124	1,438,340
Indirect	1,481,019	1,468,395	12,624	1,320,446
Operating	338,307	335,179	3,128	222,200
Less: equipment rental	(2,404,886)	(2,404,887)	1	(2,258,736)
Total equipment	771,455	749,578	21,877	722,250
Administrative:				
Administration	1,653,942	1,640,867	13,075	1,720,501
Less:				
Purchase discounts	(1,086)	(1,086)	-	(1,821)
Other	(4,196)	(10,281)	6,085	(3,162)
Total administrative	1,648,660	1,629,500	19,160	1,715,518
Drain assessment	217,219	217,219	-	200,838
Capital outlay:				
Land improvements, building and equipment	540,238	575,733	(35,495)	788,385
Less: depreciation	(844,256)	(844,256)	-	(872,525)
Total capital outlay	(304,018)	(268,523)	(35,495)	(84,140)
Debt service:				
Principal retirement	446,804	446,804	-	434,301
Interest and fiscal charges	21,143	21,143	-	80,517
Total debt service	467,947	467,947	-	514,818
Other	-	1,934	(1,934)	-
Total expenditures	\$ 18,795,239	\$ 19,470,891	\$ (675,652)	\$ 16,236,348

INGHAM COUNTY ROAD COMMISSION

Schedule of Revenue, Expenditures and Changes in Fund Balances

For the Year Ended December 31, 2005

	Designated		Undesignated	
	Primary Road Fund	Local Road Fund	County Road Fund	Total
Revenue				
Permits	\$ 122,653	\$ 116,038	\$ -	\$ 238,691
Intergovernmental:				
Federal sources	2,940,631	824,728	-	3,765,359
State sources	10,174,231	2,983,160	-	13,157,391
Local sources	-	545,233	-	545,233
Charges for services	3,559	-	1,186	4,745
Interest and rentals	37,393	1,163	11,477	50,033
Other	47,250	135,648	15,750	198,648
Total revenue	13,325,717	4,605,970	28,413	17,960,100
Expenditures				
Construction	3,266,552	-	-	3,266,552
Heavy maintenance	2,807,851	1,642,364	-	4,450,215
Maintenance	4,855,100	4,101,369	-	8,956,469
Equipment - net	336,111	345,930	67,537	749,578
Administrative - net	1,068,156	561,344	-	1,629,500
Drain assessment	217,219	-	-	217,219
Capital outlay - net	(201,392)	-	(67,131)	(268,523)
Principal retirement	424,054	-	22,750	446,804
Interest and fiscal charges	19,664	-	1,479	21,143
Other	1,934	-	-	1,934
Total expenditures	12,795,249	6,651,007	24,635	19,470,891
Revenue over (under) expenditures	530,468	(2,045,037)	3,778	(1,510,791)
Other financing sources				
Proceeds from sales of capital assets	207	-	69	276
Capital lease proceeds	104,400	-	34,800	139,200
Transfers in	-	2,675,000	-	2,675,000
Transfers (out)	(2,675,000)	-	-	(2,675,000)
Total other financing sources (uses)	(2,570,393)	2,675,000	34,869	139,476
Change in fund balance	(2,039,925)	629,963	38,647	(1,371,315)
Fund Balance, beginning of year	3,213,423	100,000	986,269	4,299,692
Fund Balance, end of year	\$ 1,173,498	\$ 729,963	\$ 1,024,916	\$ 2,928,377
Fund Balance, end of year				
Reserved	\$ 1,173,498	\$ 729,963	\$ 20,000	\$ 1,923,461
Unreserved, undesignated	-	-	1,004,916	1,004,916
	\$ 1,173,498	\$ 729,963	\$ 1,024,916	\$ 2,928,377



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



March 30, 2006

The Board of County Road Commissioners
of Ingham County, Michigan
Mason, Michigan

We have audited the financial statements of Ingham County Road Commission for the year ended December 31, 2005, and have issued our report thereon dated March 30, 2006. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Ingham County Road Commission. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by Ingham County Road Commission are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by Ingham County Road Commission during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Ingham County Road Commission's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by Ingham County Road Commission, either individually or in the aggregate, indicate matters that could have a significant effect on Ingham County Road Commission's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Ingham County Road Commission's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing our audit.

This letter and the accompanying memorandum is are intended for the use of the Board of County Road Commissioners, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style. The first name "Lehmann" is written with a large, prominent 'L' and the last name "Johnson" follows in a similar cursive script.

INGHAM COUNTY ROAD COMMISSION

Comments and Recommendations

For the Year Ended December 31, 2005

During our audit we became aware of a certain issue regarding internal control and financial reporting. This memorandum summarizes our comments and suggestions regarding this matter. This memorandum does not affect our report dated March 30, 2006 on the financial statements of Ingham County Road Commission.

Credit Card Use

During our audit procedures we performed tests on credit card transactions and the related procedures. During our testing we noted several of these transactions in which no authorization was present, though the expenses appeared to be for proper Road Commission business. We noted that the individual responsible for reconciling and approving these invoices is also one of the authorized users of the credit cards.

We recommend that the Road Commission review their credit card policy procedures. In order to enhance internal controls in this area, all transactions should have approval notations of an authorized individual indicated on the support. Also, to establish more enhanced segregation of duties, no one individual should be responsible for approving their own credit card transactions.

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